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(S) NATIONAL RECONNAISSANCE OFFICE
WASHINGTON, D.C.

OFFICE OF THE DIRECTOR

December 1, 1989

The Honorable Anthony C. Beilenson, Chairman
Permanent Select Committee on Intelligence
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter provides formal notification of the National Reconnaissance Office (NRO) intent to enter into a real property leasing agreement. The details contained herein are consistent with the ongoing and recent briefings and discussions conducted with the committee staffs.

Over the past several years, a number of studies have been conducted to review and develop appropriate options for a reorganization of the NRO. In the fall of 1988, a facilities team was chartered to support the study efforts and develop a facility strategy, along with implementation options, for the range of reorganization alternatives under consideration. In order to provide the required facilities in as timely a manner as possible and to maintain the flexibility to implement the full range of potential reorganization alternatives, a phased, incremental facility strategy was adopted.

The first phase involved the lease of a temporary facility to support the initiation of an NRO headquarters collocation including the Director, his Deputies and staff, and the management elements of Programs A, B, and C along with their support staffs. This facility also supports the establishment of an NRO planning and analysis function. While the temporary facility, because of its immediate availability, allows the most critical elements of the NRO reorganization to proceed without delay, its size (approximately 160 people) constrains the extent of the headquarters collocation and the size of the P&A organization to less than what is required.

The second phase of the facility support plan, the subject of this letter, involves the lease of a building of sufficient size (approximately 450 people) to complete the headquarters

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collocation, the establishment of the P&A organization, and the collocation of additional support functions as deemed necessary by the DNRO. The facility, referred to as the interim facility, is a basic office building incorporating necessary infrastructure and security considerations. The interim title derives from the phased facility strategy which includes a potential third phase consisting of a much larger facility (approximately 2500) to support the collocation of the entire NRO should that decision be made.

A market survey of over one hundred properties was conducted for the interim facility. The survey included commercial and government owned/leased properties distributed throughout Maryland, Virginia, and the District of Columbia. The survey was supported by both a facility support contractor (selected by formal source selection) and a local commercial real estate brokerage service. Cost, security, sole occupancy, and ability to meet schedule are examples of the screening criteria used during the market survey. Existing government buildings were ruled out because of size and security problems and new government construction did not meet schedule requirements. Commercial options were far more flexible and satisfied more of the selection criteria. The survey results led to a formal source selection between the top three candidates. Of the three proposals evaluated, one was judged to be out of the competitive range, and the remaining two were judged as acceptable alternatives. Whereas each of the two finalists proposals had its unique strengths and weaknesses, the selected winner was the lowest cost alternative.

Lease versus ownership alternatives have been an integral part of our facilities selection decision process. The lease in questions offers very favorable terms. The interim building is situated on approximately ten acres of a thirty-five acre development. We have negotiated purchase options for the existing building and the remaining twenty-five undeveloped acres within the development. The land option provides an alternative for meeting our third phase facility objectives and provides control over potential adjacent developments which is important to meeting our security needs. We have negotiated purchase options on both the existing building and adjacent land.

The contractual arrangements for the interim building will be as follows: The actual lease will be executed between the building owner and our facility support contractor. This will then be converted to a pass through arrangement between the facility support contractor and the United States Government. There will be no G&A or fee markup on the pass through contract. Operations and maintenance will be done in two parts. The

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developer, as part of the lease, will be responsible for the exterior maintenance. The facility support contractor, on a separate contract, will be responsible for interior maintenance and facility support services. The final negotiations for the interim building lease are being conducted as a two-part process; first to agree on the basic business terms and conditions, and second to agree on the specific language of the lease document. The first phase has been completed, and we are in the process of definitizing the lease. The following terms and conditions have been mutually agreed to in order to allow the lease negotiations to commence.

Net Rentable Area:	159,564 square feet.
Lease Type:	Modified Net.
Lease Rate:	$11.46 modified net ($11.00 triple net components + $.46 per square foot for Landlord exterior operating expenses).
Tenant Improvement Allowance:	$40.00 per square foot from shell.
Annual Escalator:	2.5% x building triple net component of $11.00 per square foot.
Landlord Exterior Maintenance Expenses Component:	$.46 per square foot for initial lease year (includes Association dues).
Term:	10 years. Rent commences on occupancy.
Commencement:	Tenant Improvements (TI) complete. Construction to be completed on or before October 1, 1990. For each day beyond October 14, 1990 that TI construction has not been completed, Landlord agrees to pay Tenant, as liquidating damages, $5,000.00 per day through October 31, 1990. Beginning November 1, 1990, liquidating damages will be increased to $10,000.00 per day.

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Early Occupancy Incentive:	$1.00 per square foot of additional TI allowance per month prior to October 1, 1990.
Rights to Terminate:	Tenant will provide 6 months notice of an intent to terminate. Landlord must give Tenant 2 weeks notice to tour space. Tenant will provide Landlord a partition layout of floor plans. Landlord will be limited to a maximum of two visits with 3 visitors, including the Landlord's personnel.

Early Termination Premiums

Year 5	$3,950,000
Year 6	$3,117,000
Year 7.5	$1,974,000
Year 9	$395,000

Renewals:	Three (3) five (5) year renewal terms. Renewal rate is 90% Fair Market Value (FMV) net effective rate for comparable Route 28 Corridor buildings as determined by broker method. Tenant will receive a rental credit equal to $.50 per square foot during the first year of the first renewal term.
Refurbishment:	$4.50 per square foot refurbishment allowance for the first 5 year term, escalated by 2% annually from date of occupancy. $4.00 per square foot refurbishment allowance for each remaining 5 year term, escalated by 2% annually from date of occupancy.
Restoration:	No tenant restoration will be required, except for chain link

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fence removal. Tenant will repair damage to building that results from removal of Tenant property.

__Parking:__ Free for the initial term and renewal terms.

__Purchase Price:__ [redacted] or $159.71 per square foot on a net rentable basis, accompanied by a 3% annual escalator during the initial 10 year lease term. 25X1

__Assignment and Subletting:__ Tenant will have the free and absolute right to sublet space in the building, as long as Tenant remains liable.

Any total assignment would be allowed at any time during the term of the lease to the U.S. Government (assuming the full faith and credit of the U.S. Government) or as long as the proposed Assignee has a minimum net worth of at least one billion dollars.

A total assignment would be allowed after the first five year term, as long as Tenant or the Assignee posts a prepaid Letter of Credit from an approved bank, equal to the termination penalty (declining as the termination penalty schedule declines, plus a calculated amount of rental payments on the outstanding lease term remaining. For example, if the assignment occurs at the first day of the sixth lease year, the amount of the rental payments would be equal to two years of rental payments, declining on a pro rata basis throughout the remaining lease term.

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Landlord has the sole right to approve any total assignment after the first five year term to an Assignee who does not meet the above net worth, Government or Letter of Credit tests.

Permanent Loan
Interest Rate Adjustment: In the event that the Owner achieves a permanent loan as the result of Tenant initiative at an interest rate below 9 1/8%, the triple net rental rate of $11.00 will be reduced by $.42 per square foot for each 1/2% of interest rate reduction. The permanent loan will have a 25 year minimum amortization schedule, and will have a maturity of no less than 10 years. Both parties recognize that the above financing option is at the Landlord's sole discretion.

Adjacent Ground: Tenant will have the right to purchase the adjacent 25+/- acres for $9.50 per square foot based on a 0.5 floor area ratio coverage. Settlement will occur at time of Tenant site plan approval. Within nine months after occupancy, Tenant must declare an intention to purchase adjacent ground. Purchase price escalates by 8% per year commencing 9 months after occupancy. Additionally, it is understood that Tenant will be exploring an alternate deal structure regarding Tenant use and occupancy of the adjacent ground.

Additional Items: Field allocation will be on an on-call hourly rate at the Tenant's discretion. Owner markup fees for TI construction is 8% total.

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Increases for Landlord exterior maintenance expenses will be capped at $.02 per square foot annually.

Landlord will provide a management office for Tenant consisting of 2,000 to 5,000 square feet on a rent free basis to commence as soon as possible after lease execution) (build out of management office space to commence immediately after lease execution) and to terminate six (6) months after Tenant occupancy of leased space.

The agreement described above represents a very favorable set of terms and conditions for the U.S. Government. We are proceeding with a schedule that, assuming no problems in the final lease language, would allow signing of the lease in mid-December 1989.

Martin Faga

Martin C. Faga

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